

**MONTANA TELEPHONE ASSOCIATION**

**ORIGINAL**



OF INDEPENDENT COMPANIES

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April 11, 1996

APR 12 1996

FCC MAIL ROOM

William F. Canton  
Office of the Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

RE: Notice of Proposed Rulemaking and Order Establishing Joint  
Board, CC Docket No. 96-45

Dear Mr. Canton:

Enclosed is the original and five (5) copies of the Montana  
Telephone Association Comments in the above-captioned proceeding.  
Please affix a proper notation to mark as "received for filing".

Sincerely,

Joan Mandeville  
General Manager

JM

Enclosure

cc: Service List  
International Transcription Service

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

APR 12 1996

ECG MAIL ROOM

In the Matter of the )

Federal-State Joint Board on )  
Universal Service )

CC Docket No. 96-45

COMMENTS

Montana Telephone Association  
P.O. Box 2166  
Great Falls, MT 59403

April 12, 1996

APR 12 1996

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of the )

Federal-State Joint Board on )  
Universal Service )

CC Docket No. 96-45

**COMMENTS**

The Montana Telephone Association of Independent Companies, Inc. (MTA) hereby files comments in response to the Notice of Proposed Rulemaking and Order Establishing Joint Board (hereinafter "Notice") in the above captioned matter. MTA is a non-profit association representing most of Montana's rural independent telephone companies and cooperatives. MTA's members serve some of the most rural areas of our nation. Independent companies serve approximately 117,000 square miles and have only 142,517 access lines. These customers are not located in tight clusters. These service providers have invested in over 45,000 miles of line to serve customers in rural areas. Even the average density is only three customers per mile and several companies have less than one customer per mile of line.

The Telecommunications Act of 1996 formally finds rural areas to be unique. Although universal service has been a national policy dating back to the Communications Act of 1934, the Act, on the eve of a rapid transition to a competitive telecommunications marketplace, strongly embraces the concept of universal service. The Act not only endorses the goal of universal service, it sets out very specific definitions and principles to be achieved. **The Commission must formulate a national universal service funding mechanism that assures the principles of universal service set out in the Act are achieved.**

- ① **Overall universal service funding should not be decreased. In fact, to fulfill the funding requirements occasioned by the requirements for discounts to schools, libraries and health care, the total fund will have to increase.** The transition to a competitive marketplace will result in decreasing ability to rely on carrier access revenues, business service revenues, or revenues from vertical services for supporting local services. The Commission should be mindful that the current universal service support mechanism is only one area of support that small companies rely on to keep local rates reasonable. All of these revenue sources will become increasingly difficult to maintain at current levels. Therefore, rural customers will be more reliant than ever on the federal universal service fund.

Montana's independent telephone companies currently receive approximately \$12 million dollars of Universal Service Fund (USF) support. Montana, the nation's fourth largest state, receives less than 2% of the total USF. The average per line impact of eliminating USF support payments to the customers served by these companies would be approximately \$9 per month. However, 5 of the 15 recipients receive over \$20 per month, per line and two companies' rates would increase by over \$30 per month if USF were eliminated. These companies also receive support of almost \$6 million from the ability to take advantage of Dial Equipment Minute (DEM) weighting. This support averages \$5 per month, per customer. However, several companies receive in excess of \$10 per month. The impact of reducing these support mechanisms at this time would not allow Montana's independent companies to offer local service at rates that are similar to the rates in urban areas.

- ① **Quality services must remain available in rural areas.** The Act not only reaffirms the principle that rates in rural areas should remain affordable, it also specifies that mechanisms should assure that quality services are available. Montana's rural

companies have provided high-quality telecommunications services to their customers. All of the central offices and interoffice transmission facilities served by MTA members are digital. Despite the very sparse populations in these exchanges, all customers have one-party service. It is clear that Montana's rural companies are performing as intended when the current support mechanisms were created and as envisioned in the Act. New support mechanisms will be most effective at maintaining these service levels if the support levels are at a sufficient level to keep rates reasonable and not cause significant earnings problems. If companies are required to implement substantial cost reductions to keep local rates affordable, service quality will almost certainly decline.

- ④ **Access to advanced services should be encouraged.** The Notice seeks comments on the Act's universal service principle that access to advanced telecommunications and information services should be provided in all regions of the nation. Today's support mechanisms have allowed advanced services to develop in Montana's rural areas by allowing small companies to invest in infrastructure improvements. Access to an advanced digital infrastructure will benefit all providers of telecommunications services, because they result in better end-to-end service quality and allow the providers to offer new services to customers. This type of modernization should certainly be encouraged. It is the most reliable method of allowing advanced services to develop in rural areas.
- ④ **The funding mechanism for universal service should be broadened to create a more equitable system.** Universal service benefits the entire country in many ways. It benefits the customers of small companies by assuring affordable rates.

However, interexchange carriers and other telecommunications providers<sup>1</sup> are also primary beneficiaries, because their services are more easily marketed to customers if they can access the greatest number of people and places. Low local rates also allow customers to increase spending for other services. Interexchange carriers receive significant benefits from adequate funding of the network infrastructure. For instance, the implementation of SS7 increased competition for '800' services by making these numbers portable. Switching upgrades have allowed carriers to compete for toll customers on an equal footing. Service improvements, in both transport facilities and the local loop, produce higher quality interexchange services. Because a high-quality infrastructure benefits all providers of interstate services, the Commission should make the funding mechanism as broad and fair as possible. The current Telecommunications Relay Service (TRS) funding mechanism should be used as a model to redesign the universal service funding mechanism.

- ① **The universal service fund should continue to be based on actual costs, at least in the short term. Any change to a universal service mechanism based on proxies should be optional or a reasonable transition period should be allowed.** Any proxy or indexed amount involves the use of broad averages. To conclude that the costs for any individual company would closely match the change in a proxy is incorrect. Even in Montana, the cost characteristics of individual companies varies substantially. Growth in access lines is very uneven throughout the state. Even within the study area of one company, the per line costs to connect new customers can vary greatly depending on where the growth occurs. Growth in the population center of an exchange is much less costly than growth in more isolated areas. For small companies, the natural averaging effect of disperse service areas does not

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<sup>1</sup> Including providers of cellular and other wireless services, that often terminate calls over local exchange facilities or receive revenues from calls to wireless phones from LEC customers.

occur. Therefore, the result of applying an indexed amount or implementing a proxy-based system will be to overcompensate some companies and undercompensate other companies.

The transition to a competitive environment should reduce regulation of the industry. Part of this transition may be a trend away from revenue requirement regulation and detailed embedded cost studies. However, given the uncertainty surrounding proxy results, an optional system based on the individual circumstances of each company will allow both regulators and the industry to review the impacts of the new system. This will avoid large unanticipated changes in cost recovery and corresponding increases in local rates.

- ⑦ **Most joint and common costs in small companies are directly attributed to local services.** Most small companies are structured to provide predominantly local networks. This network is used by many carriers. Small companies usually do not offer long distance services. Other vertical services provide only a very small percentage of total revenues.

Regulators created an environment whereby the users of the local network contributed to the cost recovery for that local system. A competitive environment will result in increasing pressure to recover all the costs of the local exchange network from local services. Universal service funding should recognize that all costs of small companies, including joint and common costs, are predominantly local in nature and should be included in the calculation of universal service support. If this is not allowed, these legitimate costs of regulated companies will have to be recovered through local rates.

- ④ **Access to advanced services for schools, health care, and libraries should be adequately funded.** The Act allows the Commission to set discounts for services provided to schools and libraries. It also states that services necessary for the provision of health care must be provided at rates that are reasonable comparable to those charged for similar services in urban areas. If this provision is interpreted to prohibit mileage charges for high-speed data or broadband services, it may result in substantial actual discounts levels for services provided to health care facilities.

In many rural exchanges, hospitals and educational institutions are the majority of the business customers. Offering these customers discounts will significantly reduce today's contributions to residential service. Small companies and sparsely populated rural states have a limited ability to fund large discounts for all schools, libraries and health care facilities. These discounts are required by federal statute and should be recovered through the federal USF.

- ④ **The support mechanisms established out of this proceeding should be monitored and adjusted if necessary to assure that rural rates are remaining similar to urban rates.** As competition develops, many companies will be required to reduce or eliminate reliance on the carrier common line charge and other services that are priced above cost. As this transition occurs, the support that is necessary to keep rural rates at levels that are reasonably comparable to urban areas as required by the Act may increase. The Commission should establish review mechanisms that prevent significant delays in adjusting the required support.

- ④ **Changes in the universal service fund should be accomplished through adequate transition mechanisms.** The Commission has a strong history of accomplishing change through transition mechanisms that allow individual companies to adjust rate structures without sudden sharp increases in rates. If the FCC adopts changes



that substantially alter the current fund, a transition period of not less than five years should be allowed.

- ⑥ **Conclusion.** The USF and DEM weighting programs have been extraordinarily successful, resulting in reasonable local rates and high-quality service to rural areas. MTA requests the Commission to recognize the unique needs of small companies serving rural areas and act to safeguard the continuation of both the USF and the DEM weighting program for small companies.

RESPECTFULLY SUBMITTED this 11th day of April, 1996.

MONTANA TELEPHONE ASSOCIATION

By Joan Mandeville  
Joan Mandeville, General Manager

CERTIFICATE OF SERVICE

I, LISA BRADY, certify that a copy of the foregoing Comments of the Montana Telephone Association in CC Docket No. 96-45 was served on this 11th day of April, 1996, by express mail, postage prepaid, to the Federal Communications Commission and International Transcription Services. It has also been served on each member of the Federal-State Joint Board and its staff as indicated on the service list attached to the Notice of Inquiry.

By Lisa Brady  
Lisa Brady, Office Manager